

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

IN THE MATTER OF:

APR 20 2004

The Final Report of Atmos Energy Corporation on Its )  
Hedging Program for the 2003-2004 Heating Season )  
And Motion to Conduct a Hedging Program for the 2004- )  
2005 Heating Season )

PUBLIC SERVICE  
COMMISSION

Case No.

~~2003-00102~~

2004-00142

**PETITION FOR CONFIDENTIALITY OF  
SCHEDULES TO ATMOS'S FINAL HEDGING REPORT**

Atmos Energy Corporation ("Atmos Energy"), respectfully petitions the Kentucky Public Service Commission ("Commission"), pursuant to 807 KAR 5:001, Section 7, and all other applicable law, for confidential treatment of the attached schedules to Atmos Energy's Final Hedging Report for the 2003-2004 heating season.

1. On July 23, 2003 the Commission entered an Order in this proceeding approving Atmos Energy's hedging program for the 2003-2004 heating season. The Commission's Order further directed Atmos Energy to file a final hedging report shortly after the March 31, 2004 end of the heating season. Atmos Energy filed its interim report with the Commission on or about November 15, 2003.
2. The attachments to this Petition contain sensitive pricing information and confidential information about Atmos Energy's hedging strategies. Atmos Energy's hedging strategies (including the prices Atmos Energy would likely pay for hedging contracts under various market conditions) constitutes sensitive, proprietary information which if publicly disclosed could put Atmos Energy at a commercial disadvantage in

future hedging negotiations. Prospective brokers of hedging devices would gain insight into how Atmos Energy is likely to react to changing market conditions in terms of what Atmos Energy might be willing to pay for hedging contracts. This information would not otherwise be available. Although the full extent to which Atmos Energy would be disadvantaged in future negotiations is difficult to predict, it is clear that Atmos Energy would likely be disadvantaged in future negotiations if the information contained in the attached schedules is made public.

3. Atmos Energy would not, as a matter of company policy, disclose information like that contained in the attached schedules to any person or entity, except as required by law or pursuant to a court order or subpoena. Atmos Energy's internal practices and policies are directed towards non-disclosure of the attached information. In fact, the information contained in the attached schedules is not disclosed to any personnel of Atmos Energy except those who need to know in order to discharge their responsibility. Atmos Energy has never disclosed such information publicly. This information is not customarily disclosed to the public and is generally recognized as confidential and proprietary in the industry. The Commission has historically granted Atmos Energy confidential protection to information concerning the actual price being paid by Atmos Energy to individual marketing companies and other suppliers of natural gas.

4. There is no significant interest in public disclosure of the information contained in the attached schedules. Any public interest in favor of disclosure of the information is out weighed by the competitive interest in keeping the information confidential.

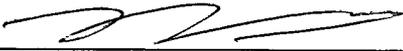
5. The information contained in the attached schedules is also entitled to confidential treatment because it constitutes a trade secret under the two prong test of

KRS 265.880: (a) the economic value of the information is derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure and (b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of this information is derived by Atmos Energy maintaining the confidentiality of the information since prospective brokers could obtain economic value by its disclosure.

6. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the attached schedules should be maintained until the Commission enters an order as to this Petition. Once the order regarding confidentiality has been issued, Atmos Energy would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:0001, Section 7 (4).

WHEREFORE, Atmos Energy petitions the Commission to treat as confidential all of the material and information which is included in the attached Exhibit "A" marked CONFIDENTIAL.

Respectfully submitted this 19th day of April, 2004.

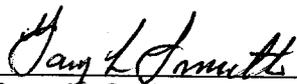
  
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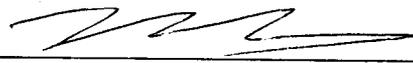
VERIFICATION

I, Gary L. Smith, being duly sworn under oath state that I am Vice President of Marketing and Regulatory Affairs for Atmos Energy Corporation, and that the statements contained in the foregoing Petition are true as I verily believe.

  
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Gary L. Smith

CERTIFICATE OF SERVICE

I hereby certify that on the 19th day of April, 2004, the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with ten (10) copies of the Petition without the confidential information, were filed with the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602,

  
\_\_\_\_\_  
Mark R. Hutchinson

ATMOS ENERGY – Kentucky Division  
FINAL HEDGING REPORT  
CASE NO. 2003-00192  
April 19, 2004

The Kentucky Public Service Commission (“Commission”) requested in its Order in Case No. 2003-00192, dated July 22, 2003, that Atmos Energy Corporation (“Atmos Energy”) provide the Commission with a final hedging report shortly after March 31, 2004. The report is to “identify any gas costs savings realized under the hedging program and provide the accounting entries made by Atmos Energy to record monthly changes in market prices and the closing of the contracts and net settlement”.

Atmos Energy’s (Kentucky Division) Hedging Program Savings

Natural gas prices began the winter 2003-2004 season with the November 2003 NYMEX contract settling at \$4.459, \$0.333 higher than the prior year (November 2002) settlement of \$4.126. The December 2003 NYMEX contract rose \$0.401 to also settle below \$5.00, closing at \$4.860. As noted in Atmos Energy’s interim hedging report, dated November 15, 2003, industry estimates of winter 2003-2004 prices had been adjusted downward from a range of \$5.00-\$5.60 in August 2003 to a range of \$4.50-\$5.00 in October 2003. The lowered expectations for winter gas prices was attributed to a record pace of summer storage refills that resulted in a storage balance in excess of 3.1 trillion cubic feet, which is considered adequate for a normal winter. November and early December did not experience any extensive periods of cold weather to put upward pressure on prices; however, continued strength in oil prices prevented prices from significant declines. Cold weather arrived at the end of December 2003 and in January 2004, causing extensive storage withdrawals nationwide to meet the increased demand. The NYMEX settlements for January and February were \$6.150 and \$5.775, respectively. The March 2004 NYMEX contract settled at \$5.15 as the end of the winter season approached.

Implementation of Atmos Energy’s 2003-2004 hedging program protected customers from absorbing the full impact of the mid-winter peak of the natural gas market. The benefits achieved in January and February of 2004 were partially offset by additional costs experienced in November and December 2003 and March 2004. 1,750,000 MMBtu were hedged with futures at a weighted average price of \$5.312. Another 1,750,000 MMBtu were hedged with a weighted average “costless collar” ceiling of \$7.460. The total benefit of the financial hedges amounted to \$126,340 after subtracting all transaction costs. Atmos Energy believes the program was successful in stabilizing gas costs for its customers and believes programs put in place in the future continue to hold value for our customers. As stated in the Commission’s Order in Case No. 2003-00192, “achieving price stability, not (necessarily) the lowest possible cost, is the (primary) goal of a hedging program.”

Atmos Energy's Hedging Program Contract Monthly Changes, Settlements, and Accounting Entries

Please review the attached schedules for the referenced results of the program.

Atmos Energy's Hedging Program Proposed for the Winter of 2004-2005

In conjunction with the submittal of this report, Atmos Energy is proposing a hedging plan for the winter of 2004-2005. The proposal for the upcoming winter will duplicate the hedging plan approved by the Commission for this past winter under Case No. 2003-00192.

Atmos Energy's proposal for the 2004-2005 season is to continue dividing its commodity gas purchases between company owned and pipeline storage, market purchases and financial hedges. Approximately 50% of the normal winter volumes will be stored during the injection season for use next winter. Of the remaining winter requirements, up to 50% of the expected gas purchases will be financially hedged (or 25% of the total winter requirements). No minimum or "floor" percentage of hedge volumes is proposed.

Atmos Energy, for the third consecutive year, proposes to purchase futures contracts and possibly call/put options in the form of "costless collars", depending on the premium. In recognition of Commission guidance in Case No. 2003-00192, the Company will enter its hedging arrangements in response to changes in market conditions, layering in positions over the course of the summer and fall.

The Company proposes to file both an interim and final report on its hedging plan, with the interim report to be filed shortly after the November 1, 2004 beginning of the upcoming heating season. The final report will be filed shortly after the March 31, 2005 end of the upcoming heating season.

During the recent management audit of gas procurement practices of the five major Kentucky Gas Local Distribution Companies ("LDC's"), it was recommended that Atmos Energy "should work with the Commission, the other Kentucky LDC's and other interested parties to establish a common foundation of objectives for natural gas hedging programs" (reference Recommendation No. E.3.2). If modifications to the plan are warranted at a later date as a result of the collaborative discussion with the Commission and other parties, Atmos Energy's hedging plan for the winter of 2004-05 could be adjusted prospectively at that time.

The Company remains convinced that a disciplined hedging strategy is essential to ensure affordable and manageable gas costs for Kentucky ratepayers in response to continued gas price volatility and market uncertainty.

**ATMOS ENERGY - KENTUCKY DIVISION  
SUMMARY OF HEDGING PLAN RESULTS  
WINTER 2003-2004  
CONFIDENTIAL**

	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Total
<b><u>Future Contracts (See page 1 Attached)</u></b>						
Volumes Hedged						
Weighted Average Price						
Low						
High						
Nymex Settlement						
<b><u>Collars (See Pages 2-3 Attached)</u></b>						
Volumes Hedged						
Avg Ceiling Price (Call)						
Avg Floor Price (Put)						
Nymex Settlement						
<b><u>Total Futures and Collars</u></b>						
Total Volumes Hedged						
<b>(Benefits) Cost of Futures Contracts</b>						
<b>(Benefits) Cost of Collars</b>						
<b>Total (Benefits) Cost of Hedges</b>						

**ATMOS ENERGY - KENTUCKY DIVISION  
HEDGE SUMMARY - FUTURES CONTRACTS  
WINTER 2003-04  
CONFIDENTIAL**

<b>KY Division Transactions</b>		Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Totals
<b>Total Planned Hedge Volume</b>							
Purchase Transaction	Date: Volume Strike Price Commodity Basis Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Commodity Basis Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Commodity Basis Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Commodity Basis Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Commodity Basis Transaction Costs						
<b>Total Purchase Summary To Date</b>	<b>% Hedge Vol Complete</b> Volume Ave. Strike Price Commodity Basis Transaction Costs Total Basis						

**2003-2004 Results**

NYMEX Close  
 Fut Volumes Hedged  
 Commodity @ Market  
 Fut Commodity Basis  
 Commodity Benefit (Cost)  
 Transaction Costs  
 Total Net Futures Benefit (Cost)

	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Totals

**ATMOS ENERGY - KENTUCKY DIVISION  
HEDGE SUMMARY - CALL OPTIONS  
WINTER 2003-04  
CONFIDENTIAL**

<b>KY Division Transactions</b>		Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Totals
Month							
<b>Total Planned Hedge Volume</b>							
Purchase Transaction	Date: Volume Strike Price Strike Amount Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Strike Amount Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Strike Amount Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Strike Amount Deferred Unit Cost Extended Value Transaction Costs						
<b>Total Purchase Summary To Date</b>	<b>% Calls Vol Complete</b> Volume Avg. Ceiling Strike Amount Transaction Costs Total Cost						

**2003-04 Results**

**Settlement Benefit (Cost)**

**Transaction Fees**

**Total Call Option Financial Benefit (Cost)**

**ATMOS ENERGY - KENTUCKY DIVISION  
HEDGE SUMMARY - PUT OPTIONS  
WINTER 2003-04  
CONFIDENTIAL**

<b>KY Division Transactions</b>		Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Totals
Month							
<b>Total Planned Hedge Volume</b>							
Purchase Transaction	Date: Volume Strike Price Strike Amount Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Extended Value Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Strike Amount Transaction Costs						
Purchase Transaction	Date: Volume Strike Price Strike Amount Transaction Costs						
<b>Total Purchase Summary To Date</b>	<b>% Put Vol Complete Volume Avg. Floor Strike Amount Average Deferred Revenue Transaction Costs</b>						
<b>2003-04 Results</b>							
<b>Settlement Benefit (Cost)</b>							
<b>Transaction Fees</b>							
<b>Total Put Option Financial Benefit by Contract Month</b>							

ATMOS ENERGY - KENTUCKY DIVISION  
HEDGING SUMMARY - WINTER 2003-04  
MONTHLY ACCOUNTING ENTRIES  
CONFIDENTIAL

Month	Category	BatchName	JF Name	Account	Sub Account	Description	Debits	Credits	Account Description	Sub Account Description
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ALL MARCH 2004 GL ENTRIES RELATED TO FEBRUARY 2004 PRODUCTION MONTH RECORDED IN MARCH GENERAL LEDGER AS OF 04/15/2004

NOTES:

1. Losses on Futures contracts are recorded as a Debit to #1910 and a Credit to #2420.
2. Gains on Futures contracts would be recorded as a Credit to #1910 and a Debit to #1740.
3. Gas costs booked on a one month lag; i.e. Final costs for March contracts held in 1910.29000 until transferred to 1910.14088 to match up with the production month.